Umzimkhulu Local Municipality
Financial statements
for the year ended 30 June 2017

General Information

Legal form of entity	Local Municipality
Members of the Council	
Mayor	Cllr M B Mpabanga
Deputy Mayor	Cllr S Nkala
Speaker	Vacant
Chief whip	Cllr X Tshazi
Members of the executive committee	Vacant
Members of the executive committee	Cllr S J Magaqa
Members of the executive committee	Cllr B Lukakayi
Members of the executive committee	Cllr B Z Magaqa
Members of the executive committee	Cllr J Msiya
Members of the executive committee	Cllr T Machi
Accounting Officer	Mr Z.S Sikhosana
Chief Finance Officer (CFO)	Mrs T.J Ngcemu
Grading of local authority	3
Attorneys	Matthew Francis
Bankers	First National Bank
Registered office	169 Main Street Umzimkhulu 3297
Business address	169 Main Street Umzimkhulu 3297
Postal address	P O Box 53 Umzimkhulu 3297
Telephone number	039 259 5000
Fax number	039 259 0427
Email address	info@umzimkhululm.gov.za

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Approval of Financial Statements

I am responsible for the preparation of these financial statements, which are set out on pages 4 to 70 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr Z S Sikhosana
Municipal Manager

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Cash and cash equivalents	2	175,497,852	111,745,164
Receivables from exchange transactions	3	2,617,506	2,663,031
Receivables from non-exchange transactions	4	2,102,222	2,770,350
VAT receivable	5	-	2,495,265
		180,217,580	**119,673,810**
Non-Current Assets			
Investment property	6	31,224,663	31,254,830
Property, plant and equipment	7	416,155,150	416,649,915
Intangible assets	8	906,053	643,079
Heritage assets	9	255,000	255,000
		448,540,866	**448,802,824**
Total Assets		**628,758,446**	**568,476,634**
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	16,831,419	13,668,653
Payables form non-exchange transactions		-	612,478
Unspent conditional grants and receipts	11	19,142,095	2,000,000
Unspent agents funds	12	21,777,207	17,430,244
VAT payable	13	61,841	-
		57,812,562	**33,711,375**
Non-Current Liabilities			
Employee benefit obligation	14	1,799,498	1,730,875
Provisions	15	2,320,670	2,424,318
		4,120,168	**4,155,193**
Total Liabilities		**61,932,730**	**37,866,568**
Net Assets		**566,825,716**	**530,610,066**
Reserves			
Housing Development Fund	16	19,215,795	17,402,161
Accumulated surplus	17	547,609,922	513,207,905
Total Net Assets		**566,825,717**	**530,610,066**

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Interest received- trading		242,586	217,224
Interest received - investment	18	10,801,527	5,888,714
Investment Property Rentals	19	1,184,345	1,216,825
Service charges	20	913,850	829,509
Other income	21	3,072,789	3,134,461
Total revenue from exchange transactions		**16,215,097**	**11,286,733**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	6,988,594	7,296,892
Transfer revenue			
Government grants & subsidies	23	199,038,905	213,536,545
Public contributions and donations		350,000	-
Fines, Penalties and Forfeits		689,295	1,017,630
Learners and licences		674,169	664,206
Motor vehicle registration and licences		498,707	368,384
Total revenue from non-exchange transactions		**208,239,670**	**222,883,657**
Total revenue	24	**224,454,767**	**234,170,390**
Expenditure			
Employee related costs	25	(64,916,279)	(58,798,175)
Remuneration of councillors	26	(16,545,522)	(14,467,129)
Debt Impairment	27	(2,360,246)	(869,015)
Depreciation and amortisation	28	(45,190,315)	(42,044,248)
Impairment loss/ Reversal of impairments	29	-	(26,100)
Interest expense	30	(375,545)	(995,601)
General Expenses	31	(50,269,437)	(45,777,995)
Lease rentals on operating lease		(334,062)	(184,491)
Repairs and maintenance		(10,061,345)	(10,901,240)
Total expenditure		**(190,052,751)**	**(174,063,994)**
Operating surplus	32	**34,402,016**	**60,106,396**
Surplus for the year		**34,402,016**	**60,106,396**

Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Balance at 01 July 2015	**11,403,244**	**453,101,509**	**464,504,753**
Changes in net assets			
Surplus for the year	-	60,106,396	60,106,396
Interest on Housing Development Fund	5,998,917	-	5,998,917
Total changes	5,998,917	60,106,396	66,105,313
Opening balance as previously reported	17,402,161	562,378,745	579,780,906
Adjustments			
Correction of prior period errors	-	525,449	525,449
Change in accounting policy	-	(49,696,288)	(49,696,288)
Balance at 01 July 2016 as restated*	**17,402,161**	**513,207,906**	**530,610,067**
Changes in net assets			
Interest on Housing Development Fund	1,813,634	-	1,813,634
Net income (losses) recognised directly in net assets	1,813,634	-	1,813,634
Surplus for the year	-	34,402,016	34,402,016
Total recognised income and expenses for the year	1,813,634	34,402,016	36,215,650
Total changes	1,813,634	34,402,016	36,215,650
Balance at 30 June 2017	**19,215,795**	**547,609,922**	**566,825,717**
Note(s)	16		

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Receipts from ratepayers and other services		17,767,492	14,314,128
Government Grants and subsidies		216,181,000	205,933,522
Interest income		10,801,527	5,888,714
		244,750,019	226,136,364
Payments			
Employee costs		(81,461,801)	(73,265,304)
Suppliers and other payments		(58,178,709)	(48,345,125)
Interest expense		(375,545)	(995,601)
		(140,016,055)	(122,606,030)
Net cash flows from operating activities	33	**104,733,964**	**103,530,334**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(44,311,334)	(92,208,665)
Purchase of other intangible assets	8	(1,016,905)	(502,143)
Net cash flows from investing activities		**(45,328,239)**	**(92,710,808)**
Cash flows from financing activities			
Repayment of other financial liabilities		-	(10,000,000)
Housing Development& Electrification Fund Proceeds		4,346,963	16,642,621
Net cash flows from financing activities		**4,346,963**	**6,642,621**
Net increase/(decrease) in cash and cash equivalents		**63,752,688**	**17,462,147**
Cash and cash equivalents at the beginning of the year		111,745,164	94,283,017
Cash and cash equivalents at the end of the year	2	**175,497,852**	**111,745,164**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2017											
Financial Performance											
Property rates	11,118,685	(1,205,337)	9,913,348	-		9,913,348	6,988,594		(2,924,754)	70 %	63 %
Service charges	879,800	-	879,800	-		879,800	913,850		34,050	104 %	104 %
Investment revenue	4,700,000	6,246,777	10,946,777	-		10,946,777	10,801,527		(145,250)	99 %	230 %
Transfers recognised - operational	183,437,960	(25,000,000)	158,437,960	-		158,437,960	158,437,960		-	100 %	86 %
Other own revenue	4,745,236	31,117	4,776,353	-		4,776,353	6,711,891		1,935,538	141 %	141 %
Total revenue (excluding capital transfers and contributions)	**204,881,681**	**(19,927,443)**	**184,954,238**	**-**		**184,954,238**	**183,853,822**		**(1,100,416)**	**99 %**	**90 %**
Employee costs	(61,526,669)	(1,490,352)	(63,017,021)	-	-	(63,017,021)	(64,916,279)	-	(1,899,258)	103 %	106 %
Remuneration of councillors	(15,712,327)	(2,223,287)	(17,935,614)	-	-	(17,935,614)	(16,545,522)	-	1,390,092	92 %	105 %
Debt impairment	(3,000,000)	-	(3,000,000)			(3,000,000)	(2,360,246)	-	639,754	79 %	79 %
Depreciation and asset impairment	(41,810,732)	(9,204,981)	(51,015,713)			(51,015,713)	(45,190,315)	-	5,825,398	89 %	108 %
Finance charges	(60,000)	-	(60,000)	-	-	(60,000)	(54,255)	-	5,745	90 %	90 %
Contracted Services	(6,873,649)	(297,423)	(7,171,072)	-	-	(7,171,072)	(6,374,651)	-	796,421	89 %	93 %
Transfers and grants	(30,621,687)	24,368,103	(6,253,584)	-	-	(6,253,584)	(4,481,663)	-	1,771,921	72 %	15 %
Other expenditure	(83,033,464)	10,739,180	(72,294,284)	-	-	(72,294,284)	(50,129,821)	-	22,164,463	69 %	60 %
Total expenditure	**(242,638,528)**	**21,891,240**	**(220,747,288)**	**-**	**-**	**(220,747,288)**	**(190,052,752)**	**-**	**30,694,536**	**86 %**	**78 %**
Surplus/(Deficit)	**(37,756,847)**	**1,963,797**	**(35,793,050)**	**-**		**(35,793,050)**	**(6,198,930)**		**29,594,120**	**17 %**	**16 %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	39,743,040	27,500,000	67,243,040	-		67,243,040	40,600,945		(26,642,095)	60 %	102 %
Surplus (Deficit) after capital transfers and contributions	**1,986,193**	**29,463,797**	**31,449,990**	**-**		**31,449,990**	**34,402,015**		**2,952,025**	**109 %**	**1,732 %**
Surplus/(Deficit) for the year	**1,986,193**	**29,463,797**	**31,449,990**	**-**		**31,449,990**	**34,402,015**		**2,952,025**	**109 %**	**1,732 %**
Capital expenditure and funds sources											
Total capital expenditure	57,350,040	24,918,904	82,268,944	-		82,268,944	47,557,720		(34,711,224)	58 %	83 %
Sources of capital funds											
Transfers recognised - capital	39,743,040	25,000,000	64,743,040	-		64,743,040	40,600,945		(24,142,095)	63 %	102 %
Internally generated funds	17,607,000	(81,096)	17,525,904	-		17,525,904	6,956,775		(10,569,129)	40 %	40 %
Total sources of capital funds	**57,350,040**	**24,918,904**	**82,268,944**	**-**		**82,268,944**	**47,557,720**		**(34,711,224)**	**58 %**	**83 %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	49,418,936	38,845,310	88,264,246	-		88,264,246	104,733,964		16,469,718	119 %	212 %
Net cash from (used) investing	(57,350,040)	(24,918,903)	(82,268,943)	-		(82,268,943)	(45,328,239)		36,940,704	55 %	79 %
Net cash from (used) financing	-	-	-	-		-	4,346,963		4,346,963	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**(7,931,104)**	**13,926,407**	**5,995,303**	**-**		**5,995,303**	**63,752,688**		**57,757,385**	**1,063 %**	**(804)%**
Cash and cash equivalents at the beginning of the year	83,394,486	28,350,678	111,745,164	-		111,745,164	111,745,164		-	100 %	134 %
Cash and cash equivalents at year end	**75,463,382**	**42,277,085**	**117,740,467**	**-**		**117,740,467**	**175,497,852**		**(57,757,385)**	**149 %**	**233 %**

Summary of Significant Accounting Policies

1. Accounting policies

1.1 Basis of presentation

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

1.1.1 Changes in accounting policies, esimates and errors

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Change in an accounting estimate is recognised prospectively in terms of GRAP 3 by including it in surplus or deficit in:

(a) The period of the change, if the change affects that period only; or

(b) The period of the change and future periods, if the change affects both

Errors are corrected retrospectively in the period in which the error has occured in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only in the following instances:
(a) Is required by a Standard of GRAP; or
(b) Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current financial year.

Summary of Significant Accounting Policies

1.5 Critical judgements, estimation and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

1.5.1 Revenue recognition

Accounting policy 1.18 on Revenue from exchange Transactions and accounting policy 1.19 of Revenue from non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 1.12.1 on Financial Assets Classification and on Financial Liabilities Classification describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

1.5.3 Impairment of financial assets

Accounting Policy 1.24 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial instruments and used its judgement to select a variety of methods and made assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment value of financial assets recorded during the year is appropriate.

1.5.4 Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the underlying assets. The estimated useful lives of PPE, investment property and intangible assets are assessed annually and this is dependent on the condition of the assets. The residual values are estimated to be zero as the municipality will be utilising these assets of their entire economic life.

1.5.5 Budget information

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the annual financial statements.

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained between the Statement of comparison of Budget and Actuals and the notes to the annual financial statements.

Summary of Significant Accounting Policies

. Critical judgements, estimation and assumptions (continued)

1.5.6 Impairment of property, plant and equipment and intangible assets

Accounting Policy 1.8.3 on PPE - Impairment of assets and Accounting Policy 1.9.3 on Intangible assets- Amortisation and impairment. Subsequent measurement describes the conditions under which non- financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing and intangible assets impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [Heavy rains, storms, etc].

1.5.7 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.5.8 Post Retirement Benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

1.5.9 Principal versus agent relationship

Judgement has been used in assessing and categorising the nature of the respective and independent arrangements between the Municipality and the Human Settlement Department and Eskom as done in conjunction with and partly through the National Department of Energy

Summary of Significant Accounting Policies

1.6 Standards, amendments to standards and interpretations issued

1.6.1 Standards and interpretations approved and effective:

GRAP 109 Accounting by Principals and Agents

An entity is an agent when in relation to transactions with third parties all three of the following criteria are present:
That the entity concerned does not have the power to determine the significant terms and conditions of the transaction;
That it does not have the ability to use all or substantially all of the resources resulting from the transactions for its own benefit; and
That it is not exposed to variability in the results of the transaction.
An exception will apply will apply where an entity has been granted specific powers in terms of legislation to direct terms and conditions of particular transactions, in such a situation it shall not consider the 'not having the power to determine significant terms and conditions of the transaction' criteria to conclude that it is an agent. In such situations, the entity shall apply its own judgement in determining whether such powers exist and whether they are relevant in assessing an entity as an agent.

The Municipality has an agent-principal relationship with two different parties namely the Human Settlement Department and Eskom, the latter administered in conjunction with and partly through the National Department of Energy.
Housing Development Fund (**Municipal Housing Operating Account**)
In respect of Human Settlement Function, the Municipality has been tasked with the responsibility of delivering housing projects for and on behalf the Human Settlement Department done in terms of the Housing Act, Act No 107 of 1997 whereby a Human Settlement Fund was historically advanced to the Municipality for the sole purpose of developing and selling housing schemes. This fund has two components, the capital fund and the operational fund. The capital fund represents the capital sum that came into being on 01 April 1998 (as a result of the extinguishment of the previous National and Provincial Government Loans made available to the Municipality for the purpose of financing housing selling schemes in terms of the then incoming Housing Act) while the operational fund represents a combination of interested earned on the capital fund that has been transferred to the operational fund under the express authority of the Human Settlement Department and interest since earned on the operational fund itself to-date. The two funds are managed through distinct bank accounts. The development and selling of housing schemes, is done through the operational fund; whereby each housing scheme's business plan is specifically approved and signed off by the Human Settlement Department from start to completion. In terms of the standing directive of the Housing Act, Section 14 (4) (d) (iv) the Municipality furnishes on a monthly basis monthly reports regarding the sale of immovable property by the Municipality in terms of this paragraph including the basis for determining the selling prices.
Intitial recognition
The Municipal Housing Operating Account is the interest of the Capital and is recognised as a reserve in municipal books.
Subsequent measure
The unspent fund on Human Settlement Development Fund is recorded as an unspent in the liabilities.
ESKOM Princial
With respect to the Eskom principal / agency relationship the Municipality receives a conditional electrification grant from the National Department of Energy, the purpose of which is to address the electrification backlog of permanently occupied residential dwellings entailing the installation and rehabilitation of the electricity bulk infrastructure. The foregoing 'works' on infrastructure are done on behalf of and for the benefit of Eskom. In terms of the existing memorandum of understanding, Eskom approves the design and the construction / rehabilitation of each bulk infrastructure project embarked upon; with a final approval sign-off on project completion prior to the permanent transfer of the project on completion. There were no changes to the foregoing significant terms and conditions of the arrangement during the reporting period.

The foregoing arrangements have been accounted for in terms of the standard on accounting by principals and agents, wherein the Municipality is an agent and two parties referred to above are unrelated and independent principals. Practically, these arrangements have each been accounted for in terms of fund accounting; whereby the funds received are recognised as an effective liability in terms of fund accounting; and upon utilisation of the fund for the intended purposes in the manner described above, the respective fund is reduced by the total approved and compliant expenditure. Accordingly, at any reporting date, each respective fund represents the unexpended portion of the respective designated funds received from the respective principals inclusive of interest received, where expressly stipulated. Each of the funds are duly backed by the matching investment bank accounts at the reporting date. The nature and the identity of conditional capital grant received from the National Department of Energy, has been overridden by the principles of the principal / agent relationship amongst the parties involved and thus accounted for in terms of fund accounting.

There were resources that were duly recognised in the Municipality's financial statements yet held on the principal's behalf. The only risks transferred from the respective principals to the Municipality are 'custody and potential workmanship error' risk on the development and selling of housing schemes as well respective construction and rehabilitation activities vis-à-vis the bulk electricity infrastructure during the construction and rehabilitation phase.
Initial recognition
The municipality recognises a liability when it receives the funds from the principal, and when paying the service providers the

Summary of Significant Accounting Policies

. Standards, amendments to standards and interpretations issued (continued)
liability is reduced.
This standard has been early adopted by the municipality.
1.6.2 Standards and interpretations issued, but not yet effective
The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 April 2016 or later periods:

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

1.6.2 Standards and interpretations approved not yet effective
GRAP 20 Related Party Disclosures
The objective of this Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Scope
An entity that prepares and presents financial statements under the accrual basis of accounting (in this Standard referred to as the reporting entity) shall apply this Standard in:
(a) identifying related party relationships and transactions;
(b) identifying outstanding balances, including commitments, between an entity and its related parties;
(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
(d) determining the disclosures to be made about those items.
.
This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements (GRAP 6). This Standard also applies to individual financial statements.
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Related party transactions and outstanding balances within an economic entity are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the economic entity.

GRAP 32 Service Concession Arrangements: Grantor
GRAP 34 Separate Financial Statements
GRAP 35 Consolidated Financial Statements
GRAP 36 Investments in Associates and Joint Ventures
GRAP 37 Joint Arrangements
GRAP 38 Disclosure of Interests in Other Entities
GRAP 110 Living and Non-living Resources

1.7 Investment property

1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

1.7.2 Subsequent measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	30-50 years

1.7.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.8 Property, plant and equipment

1.8.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Summary of Significant Accounting Policies

. Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part thereof . If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

1.8.2 Subsequent measurement

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.8.3 Depreciation and impairment

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives of assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	
• Land	Indefinite
Buildings	
• Buildings	30-50 years
Infrastructure	
• Dams	30 years
• Pedestrian malls	30 years
• Roads	10-30 years
Community	
• Buildings	30-50 years
• Recreational Facilities	20-30 years
• Security	5-10 years
Other property, plant and equipment	
• Other Vehicles	5-15 years
• Office Equipment	3-12 years
• Furniture and fittings	7-12 years
• Specialist Vehicles	10-20 years
• Landfill site	15 years

The useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Summary of Significant Accounting Policies

. Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.8.4 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.8.5 Work in progress

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.8.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

1.8.7 Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.9 Intangible assets

1.9.1 Initial recognition

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

1.9.2 Subsequent measurement

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

1.9.3 Amortisation and impairment

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Summary of Significant Accounting Policies

. Intangible assets (continued)

Item	Useful life
Computer software, other	3-5 years

1.9.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.10 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.11 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.11.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.11.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Summary of Significant Accounting Policies

. Heritage assets (continued)

1.11.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

1.11.4 Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.11.5 Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.11.6 Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

. **Financial instruments (continued)**

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

Summary of Significant Accounting Policies

. **Financial instruments (continued)**

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.12.1 Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other receivable from exchange and non-exchange transactions	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.12.2 Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Summary of Significant Accounting Policies

. Financial instruments (continued)

1.12.3 Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.12.4 Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.12.5 Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Summary of Significant Accounting Policies

. Financial instruments (continued)

1.12.6 Derecognition

1.12.6.1 Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

1.12.6.2 Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

. Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.12.7 Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

Summary of Significant Accounting Policies

1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Summary of Significant Accounting Policies

. Leases (continued)

1.17.1 Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.17.2 Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services. Such transactions are accounted for in accordance with the standard on principals and agents

1.18.1 Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts and volume rebates.

1.18.2 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

. Revenue from exchange transactions (continued)

1.18.3 Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.18.4 Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

. Revenue from non-exchange transactions (continued)

1.19.1 Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.19.2 Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.19.3 Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

1.19.4 Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.19.5 Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Summary of Significant Accounting Policies

. Revenue from non-exchange transactions (continued)

1.19.6 Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

1.19.7 Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

1.19.8 Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19.9 Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Services in-kind are not recognised.

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Investment income comprise of interest received on investments.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Employee benefits

1.23.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compansated absences is recognised s an expense as the employee render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Summary of Significant Accounting Policies

. Employee benefits (continued)

The expected costs of surplus sharing and bonus payments is recognised as expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.23.2 Retirement benefits

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical and pension funds on their behalf and thus there are no post- employment benefits.

1.23.3 Long service awards

Provision for long services awards represents the present value of the estimated future cash outflow to be made by the municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis.Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit

Short-term employee benefits

1.23.4 Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.24 Impairment of cash generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Summary of Significant Accounting Policies

. Impairment of cash generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.25 Value added tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value-Added Tax Act No 89 of 1991

1.27 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.28 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Summary of Significant Accounting Policies

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.30 Segmental information

The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Where applicable segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.31 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by a municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 01 July 2016 to 30 June 2017.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.32 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.33 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Summary of Significant Accounting Policies

. Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.34 Payables from exchange transactions

The Municipality recognises payables from exchange transactions where liabilities result in counter performance by respective parties as a result of exchange transactions.

Payables from exchange transactions are initially measured at fair value. Where the outflow is expected to be cash or onother financial asset, the payable is classified as a financial liability.

The Municipality recognises in payables an amount for accruals where an estimate is made of the amounts due for goods or services that have been received or supplied, but an invoice or formal request for payment has not been received at the reporting date.

1.35 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term liquid investment that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are classified as financial instruments (refer to note 2).

Notes to the Financial Statements

Figures in Rand	2017	2016

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,621	96
Bank balances	666,652	419,953
Short-term deposits	174,829,579	111,325,115
	175,497,852	**111,745,164**

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

Primary bank account details

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB- Cheque Account- 52555730913	1,564,962	446,386	1,004,120	666,652	419,953	1,011,718
Clydesdale Housing Project- FNB- 62331947418	9,562,004	9,492,856	10,434,622	9,562,004	9,492,856	10,434,622
Ext 5&6 Housing Project- FNB- 62023990907	471,883	490,122	1,280,346	471,910	490,122	1,280,346
Ibisi Housing Project- FNB- 62331935950	121,518	135,230	822,617	121,518	135,230	822,617
MIG Grant- FNB- 62123938055	8,927,355	7,859,921	300,245	8,927,355	7,859,921	300,245
MSIG- FNB- 62127055045	47,240	46,187	21,886	47,240	46,187	21,886
Neighbourhood Grant- FNB- 62174358525	2,719,719	6,381,217	10,861,977	2,719,719	6,381,215	10,861,977
Electricity- FNB- 62174363508	4,930,985	365,474	1,010	4,930,985	365,475	1,010
Riverside Housing Project Phase1- FNB- 62023990593	506,192	506,422	693,675	506,192	506,422	693,675
Riverside Housing Project Phase2- FNB- 62331950495	3,004,939	2,992,436	3,600,998	3,004,939	2,992,436	3,600,998
Ritvlei/Cly Surv Account- FNB- 62123938104	910,193	873,354	841,162	910,193	873,354	841,162
Rural Housing project- FNB- 62331949422	3,809,013	3,813,178	5,009,961	3,809,013	3,813,178	5,009,961
32 Days Acc- FNB- 62132172355	39,094,691	34,804,024	38,644,599	39,094,691	34,804,011	38,644,599
Nedbank- 7165022759	32,283,616	26,896,082	-	32,283,616	26,896,082	-
Sports Facility Grant- FNB- 62125140129	-	1,133	1,122	1,140	1,132	1,122
Human Settlement Housing Operating Account- 62396633838	18,305,602	16,528,807	10,564,484	18,305,602	16,528,807	10,564,484
Small Town- FNB- 62396640396	17,546,680	126,235	4,950,921	17,546,680	126,235	4,950,921
Electrification Pleadge- FNB- 62521187684	-	10,487	5,241,522	12,750	12,452	5,241,522
Investec investment-	32,574,033	-	-	32,574,033	-	-
Total	**176,380,625**	**111,769,551**	**94,275,267**	**175,496,232**	**111,745,068**	**94,282,865**

Notes to the Financial Statements

Figures in Rand	2017	2016

3. Receivables from exchange transactions

Other receivables	33,203	37,598
Provisions for other receivables	(33,203)	(37,598)
Prepayments	795,600	906,270
Operating lease receivables	32,128	35,301
Consumer debtors - Refuse	1,789,778	1,721,460
	2,617,506	**2,663,031**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(37,598)	(180,920)
Amounts written off as uncollectible	-	141,592
Payment received	4,395	1,730
	(33,203)	**(37,598)**

Refuse

Gross balances	2,607,549	2,349,390
Less: Allowance for impairment	(1,321,390)	(1,113,488)
Net balances	**1,286,159**	**1,235,902**

Refuse in days		
Current (0-30 days)	133,438	105,364
31-60 days	64,215	63,378
61-90 days	56,178	42,264
91-120 days	25,028	11,363
121-365 days	1,007,300	1,013,533
	1,286,159	**1,235,902**

Other rentals		
Balance	503,619	485,558

4. Receivables from non-exchange transactions

Fines	1,252,527	860,946
Provision for Traffic Fines	(983,416)	(441,496)
Consumer debtors - Rates	1,833,111	2,350,900
	2,102,222	**2,770,350**

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(441,496)	(6,409,332)
Provision for Traffic fines	(541,920)	(351,450)
Amounts written off as uncollectible	-	6,319,286
	(983,416)	**(441,496)**

Rates		
Gross balance	4,316,068	4,101,128
Less: Allowance for impairment	(2,482,956)	(1,750,228)
Net balance	**1,833,112**	**2,350,900**

Notes to the Financial Statements

Figures in Rand	2017	2016

4. Receivables from non-exchange transactions (continued)

Rates in days	2017	2016
Current (0-30 days)	128,195	120,206
31-60 days	54,988	163,070
61-90 days	46,326	40,683
91-120 days	7,607	13,667
121-365 days	1,595,996	2,013,274
	1,833,112	**2,350,900**

5. VAT receivable

	2017	2016
VAT (SARS)	-	2,495,265

6. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	31,827,992	(603,329)	31,224,663	31,827,992	(573,162)	31,254,830

Reconciliation of investment property - June 2017

	Opening balance	Depreciation	Total
Investment property	31,254,830	(30,167)	31,224,663

Reconciliation of investment property - June 2016

	Opening balance	Depreciation	Total
Investment property	31,284,997	(30,167)	31,254,830

7.1 Rental Income from Investment Property

	2017	2016
Direct income from rentals	1,184,345	1,216,825

Figures in Rand	2017	2016

6. Investment property (continued)

7.2 Details of property

Land- Shopping Complex
Erven 229, 735 and 736
Duration : 50 years
Termination date : 18 June 2046
The Rhino centre has 10% of the net rental and 2% is payable to the municipality, which is calculated on the turnover.

- Purchase price: 1 July 1996	5,300,000	5,300,000

Building- Hotel and House
Erven 231 and 232
Duration : 50 years
Termination date : 30 November 2061
Rental income is R148 620 per annum. The rental shall escalate by an amount equivalent to the CPI index every year.

- Purchase price: 1 December 2011	904,992	904,992
- Accumulated depreciation	(603,328)	(573,162)
	301,664	**331,830**

Municipal Vacant Land
Erven 152

- Purchase price: 1 July 1997	13,162,000	13,162,000
- Additions since purchase or valuation	2,461,000	2,461,000
	15,623,000	**15,623,000**

Land- Umzimkhulu Mall
Erven 155
Duration: 50 years
Termination: 31 December 2062
Rental income is R285 952 per annum. The rental shall escalate by an amount equivalent to CPI index every year, but this escalation shall never be less than 4% nor be greater than 8% per annum.

- Purchase price: 1 Janaury 2013	10,000,000	10,000,000

- Land - Shopping Complex	5,300,000	5,300,000
- Building - Hotel and House	301,664	331,830
- Municipal Vacant Properties	15,623,000	15,623,000
- Land - Umzimkhulu Mall	10,000,000	10,000,000
Total Investment property	**31,224,664**	**31,254,830**

There were no repairs and maintainance on the investement property in this financial year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Financial Statements

Figures in Rand

7. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	10,104,000	-	10,104,000	10,104,000	-	10,104,000
Buildings	43,097,091	(10,051,423)	33,045,668	28,594,475	(8,910,076)	19,684,399
Infrastructure Assets	389,764,024	(187,141,081)	202,622,943	361,163,374	(152,802,233)	208,361,141
Community Assets	120,113,904	(15,494,089)	104,619,815	110,177,844	(11,463,425)	98,714,419
Other Fixed Assets	44,482,598	(17,037,256)	27,445,342	39,934,983	(11,820,244)	28,114,739
WIP Infrastructure Assets	14,951,194	-	14,951,194	11,643,492	-	11,643,492
WIP Buildings	-	-	-	13,791,723	-	13,791,723
WIP Community Assets	23,366,188	-	23,366,188	26,236,002	-	26,236,002
Total	**645,878,999**	**(229,723,849)**	**416,155,150**	**601,645,893**	**(184,995,978)**	**416,649,915**

Notes to the Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2017

	Opening balance	Additions	Loss on scrapping of assets	Capitalised during the year	Depreciation	Total
Land	10,104,000	-	-	-	-	10,104,000
Buildings	19,684,399	-	-	14,502,616	(1,141,347)	33,045,668
Infrastructure Assets	208,361,141	-	-	28,600,680	(34,338,878)	202,622,943
Community Assets	98,714,419	-	-	9,936,061	(4,030,665)	104,619,815
Other fixed assets	28,114,739	4,625,812	(2,521)	-	(5,292,688)	27,445,342
WIP Infrastructure Assets	11,643,492	32,031,978	-	(28,724,276)	-	14,951,194
WIP Buildings	13,791,723	710,893	-	(14,502,616)	-	-
WIP Community Assets	26,236,002	6,942,651	-	(9,812,465)	-	23,366,188
	416,649,915	**44,311,334**	**(2,521)**	**-**	**(44,803,578)**	**416,155,150**

Reconcilliation of opening balances for 2017.

Reconcilliation of opening balances	Opening balance as previously reported	Adjustment due to change in accounting policy	Adjustment correction of prior period error	Depreciation correction of prior period error	Re-stated opening balance
Land	10,104,000	-	-	-	10,104,000
Buildings	19,684,399	-	-	-	19,684,399
Infrastructure assets	208,361,141	-	-	-	208,361,141
Community Assets	91,545,969	-	7,179,751	(11,301)	98,714,419
Other fixed assets	28,253,867	-	(158,500)	(19,372)	28,075,995
WIP Infrastructure	61,339,781	(49,696,289)	-	-	11,643,492
WIP Buildings	13,791,723	-	-	-	13,791,723
WIP Community assets	33,415,753	-	(7,179,751)	-	26,236,002
	466,496,633	**(49,696,289)**	**(158,500)**	**(30,673)**	**416,611,171**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2016

	Opening balance	Additions	Loss on scrapping of assets	Capitalised during the year	Change in Accounting Policy	Depreciation	Depreciation correction of prior period error	Impairment Loss	Total
Land	10,104,000	-	-	-	-	-	-	-	10,104,000
Buildings	20,776,375	-	-	-	-	(1,091,976)	-	-	19,684,399
Infrastructure Assets	215,615,173	-	-	25,890,516	-	(33,144,548)	-	-	208,361,141
Community Assets	80,999,619	661,000	-	20,351,145	-	(3,286,044)	(11,301)	-	98,714,419
Other fixed assets	17,901,506	14,813,771	(254,098)	-	-	(4,320,340)	-	(26,100)	28,114,739
WIP Infrastructure Assets	54,915,482	68,707,162	-	(46,241,661)	(65,737,491)	-	-	-	11,643,492
WIP Buildings	8,701,670	5,090,053	-	-	-	-	-	-	13,791,723
WIP Community Assets	23,299,323	2,936,679	-	-	-	-	-	-	26,236,002
	432,313,148	**92,208,665**	**(254,098)**	**-**	**(65,737,491)**	**(41,842,908)**	**(11,301)**	**(26,100)**	**416,649,915**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Buildings	Total
Opening balance	11,643,492	26,236,002	13,791,723	51,671,217
Additions/capital expenditure	32,031,978	6,942,651	710,893	39,685,522
Transferred to completed items	(28,724,276)	(9,812,465)	(14,502,616)	(53,039,357)
	14,951,194	**23,366,188**	**-**	**38,317,382**

Notes to the Financial Statements

Figures in Rand	2017	2016

7. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Included within Buildings	Total
Opening balance	54,915,482	23,299,323	8,701,670	86,916,475
Additions/capital expenditure	68,707,162	2,936,679	5,090,053	76,733,894
change in accounting policy	(65,737,491)	-	-	(65,737,491)
Transferred to completed items	(46,241,661)	-	-	(46,241,661)
	11,643,492	**26,236,002**	**13,791,723**	**51,671,217**

Other information

Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:		
New Traffic Department	14,502,616	13,791,723
WIP- Memorial Hall	16,750,630	14,957,981
Umzimkhulu SMME Facility	752,548	-
	32,005,794	**28,749,704**

New Traffic department (completed and capitalised): had some delays to the initial completion time due to the changes of the scope of work by Department of Transport.

WIP Memorial Hall: The reasons for delays in WIP Memorial Hall: The 1st service provider services were terminated due to non performance, and the 2nd service provider experienced delays to get an approval from Amafa due to the designs that were not compliant as per Amafa requirements, since the project is under the Heritage site. The municipality is also addressing planning issues, such as consolidation of the ERF that is still on the process of being registered at Surveyor General.

UMZIMKHULU SMME FACILITY: During the construction of Phase 1, the Environmental specialist advised that according to the conditions of the EIA approval, there are no works permitted to be performed in the wet land area until a Water Use Licence Authorization (WULA) has been approved. The WULA approval takes approximately six – twelve months. The board or committee sits only four times a year and last sitting was in March 2017. All required documentation had been submitted through our consultant and waiting for the next sitting which will take place in June 2017.

This resulted to a scope of the contractor being reduced to exclude the stormwater drainage and subsoil drainage and thus having to include a common access to three business Erven (2005, 1607 & 729) since these businesses cannot have a direct access from a Provincial Road (P416) according to DoT standards. (See attached revised layout plan.)

During the December to March (rainy season), our area experienced heavy rain which normally lasted for three – four days a week and thus result to a week with no activities due to the area being a flat surface. The flooding of the site resulted to breaking up of underground water table through minor springs that compromised the completed works. Reworking of these layers had delayed the project. In total the engineer evaluated and approved a total of 96 days of rain which worked out to three months extension of time for the contract.

Given the time for WULA approval and the change in the scope for the contractor, this entitles the contractor to an extension of time of six months which ends in August 2017

Figures in Rand	2017	2016

7. Property, plant and equipment (continued)

Repairs and Maintainance

Repairs and maintenance incurred to maintain property, plant and equipment is represented as follows:

	2017	2016
Cost of service providers (contracted services)	5,699,531	7,529,044
Material and suppliers	1,513,425	2,062,779
Employment costs	1,809,795	2,085,358
Repairs on other PPE	2,848,389	3,372,196
	11,871,140	**15,049,377**

The total for this note showing Repairs and Miantenance will not be the same as the amount in the face of the statement of performance since there, the expenditure is classified according to their nature, but since we have our own plan machinery this note allows us to actually show other expenses incured in repairing and maintaining our assets.

8. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	1,711,775	(805,722)	906,053	1,173,461	(530,382)	643,079

Reconciliation of intangible assets - June 2017

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software	643,079	1,016,905	(397,329)	(356,602)	906,053

Reconciliation of intangible assets - June 2016

	Opening balance	**Additions**	**scrapping of assets**	**Amortisation**	**Total**
Computer software	320,632	502,143	(19,821)	(159,875)	643,079

9. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets under construction/development	432,000	(177,000)	255,000	432,000	(177,000)	255,000

Reconciliation of heritage assets- June 2017

	Opening balance	**Total**
Heritage assets under construction/development	255,000	255,000

Figures in Rand	2017	2016

9. Heritage assets (continued)

Reconciliation of heritage assets- June 2016

	Opening balance	Impairment losses (recognised)/reversed directly in Net assets	Total
Heritage assets under construction/development	180,000	75,000	255,000

Included in heritage assets are assets that have been identified as taking significantly longer period of time to complete than expected, due to the following:		
Memorial Hall	255,000	255,000

The reasons for delays in WIP Memorial Hall: The 1st service provider services were terminated due to non performance, and the 2nd service provider experienced delays to get an approval from Amafa due to the designs that were not compliant as per Amafa requirements, since the project is under the Heritage site. The municipality is also addressing planning issues, such as consolidation of the ERF that is still on the process of being registered at Surveyor General.

There was no repairs and maintenance expenditure incurred on Heritage assets that took place in the current financial year.

10. Payables from exchange transactions

	2017	2016
Income received in advanced - contract in process	261,334	114,485
Creditors	200,600	541,942
Accrued leave pay	2,507,165	2,277,354
Creditors Accruals	4,708,643	2,759,740
Deposits received	72,402	34,791
Retention	8,479,653	7,940,341
Provision for WCA	601,622	-
	16,831,419	**13,668,653**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2017	2016
Unspent conditional grants/ Funds		
Small town development Grant	19,142,095	2,000,000

12. Unspent Agent Funds/ Grants

The municipality is holding funds on behalf of two principals to the value of R21 777 207 and R17 430 244 (2016) as it is involved in a principle-agent arrangement. These amounts are disclosed as current liabilities on the face of statement of financial position and on note 13 as unspent agent funds/ grants.
No funds were transferred back to the principals in the current year.

The details of the funds are as follows:

	2017	2016
Human settlement housing capital fund	17,475,577	17,430,244
Electrification Fund	4,301,630	-
	21,777,207	**17,430,244**

Notes to the Financial Statements

Figures in Rand	2017	2016

12. Unspent Agent Funds/ Grants (continued)

Human Settlement Housing Capital fund

Opening balance	17,430,244	21,696,212
Trasfer in/out	(826,942)	(5,359,119)
Current-year interest	872,276	1,093,151
	17,475,578	**17,430,244**

Electrification Fund

Current -year receipts	25,000,000	20,000,000
Conditions met	(20,698,370)	(20,000,000)
	4,301,630	**-**

13. VAT payable

Tax refunds payables	61,841	-

14. Employee benefit obligations

Long service awards

Current service cost	1,730,875	1,137,074
Interest cost	375,545	256,135
Actuarial (gains) losses	(131,527)	352,055
Expected return on plan assets	(175,395)	(14,389)
	1,799,498	**1,730,875**

Employees who achieve 10 years of service will be granted 10 days paid leave. Employees who achieve 15 years of service will be granted 20 days paid leave. Employees who achieve 20 years of service will be granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years of service will be granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2017. It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 8.95% (2016 : 8.99%) was used on internal rate of return.

Key assumptions used

The financial and demographic assumptions used in the valuation are as follows:

Discount rates used	8.95 %	8.99 %
Expected rate of return on reimbursement rights	5.74 %	6.62 %
Expected increase in salaries	6.74 %	7.62 %
Proportion of employees opting for early retirement	2.07 %	1.27 %

The mortality rate of an individual is assumed to be 85-90.

The normal retirement age is assumed to be 63 years.

Notes to the Financial Statements

Figures in Rand	2017	2016

15. Provisions

Reconciliation of provisions - 30 June 2017

	Opening Balance	Additions	Total
Landfill site provision	2,424,318	(103,648)	2,320,670

Reconciliation of provisions - 30 June 2016

	Opening Balance	Utilised during the year	Total
Landfill site provision	2,238,107	186,211	2,424,318

Landfill site

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in December 2018 and has been discounted to reflect its present value.
The discounting rate used is 8.59%.

16. Housing operating account

Human Settlement Housing Development Fund

	2017	2016
Opening balance	17,402,161	11,437,838
Transfer in/out	827,043	5,359,119
Current year interest	986,591	605,204
	19,215,795	**17,402,161**

Notes to the Financial Statements

Figures in Rand	2017	2016

17. Accumulated surplus

Reconciliation of accumulated surplus- 30 June 2017

	Opening balance	Surplus for the year	Total
Opening balance	513,207,905	34,402,017	547,609,922

Reconciliation of accumulated surplus- 30 June 2016

	Opening balance	Adjustments during the year	Surplus for the year	Total
Opening balance	498,284,119	(45,182,610)	60,106,396	513,207,905

18. Interest received - investment

	2017	2016
Interest revenue		
Bank	10,801,527	5,888,714

19. Investment Property Rentals

	2017	2016
Premises		
Facilities and equipment	1,184,345	1,216,825

20. Service charges

	2017	2016
Refuse removal	913,850	829,509

21. Other revenue

	2017	2016
Surplus on Landfill provision	103,648	-
Sundry income	435,710	1,105,181
Dumpsite removal	743,830	724,447
Refund income	36,870	99,297
Cemetry fees	8,543	8,837
Dumping fees	35,744	54,006
Hall fees	50,707	25,182
Seta fund	123,269	115,205
Business tariffs	67,177	33,731
PDA applications	10,942	13,789
Advertising income	82,233	39,284
Building plans and servitudes	111,896	64,928
Waste skips	109,220	108,695
Legal fees income	-	4,716
Zoning certificates	5,255	1,166
Library fees	105,428	47,939
Impairment reversal	-	75,000
Proceeds on Disposals	56,283	249,778
Insurance claim	986,034	363,280
	3,072,789	**3,134,461**

Notes to the Financial Statements

Figures in Rand	2017	2016

22. Property rates

Rates raised

Residential	907,474	1,521,369
Commercial	3,685,520	3,944,272
State	5,363,277	5,332,203
Less: rebates	(2,967,677)	(3,500,952)
	6,988,594	**7,296,892**

Valuations

Residential	215,837,000	215,738,000
Commercial	239,975,000	239,975,000
State	669,681,000	668,031,000
Municipal	131,032,500	130,122,500
Small holdings and agriculture	582,579,000	582,579,000
Industrial	2,687,000	2,687,000
Place of worship	10,715,000	10,715,000
Public service infrastructure	9,183,000	9,183,000
Communal property	51,000	51,000
Rural business	-	-
Rural residential	-	-
	1,861,740,500	**1,859,081,500**

Description	Number of properties	Tariffs
Agriculture	416	0.0135
Agricultural smallholding	211	0.0135
Commercial	61	0.0135
Communal properties	1	0.0021
Industrial	2	0.0135
Municipal	1,038	0,0088
Public service infrastructure	74	0.0021
Residential	2,812	0.0088
State owned	229	0.0088
Place of worship	11	0.0088
	4,855	

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council's approved Rates policy.State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council's approved policy. Rates are levied monthly in 12 equal instalments payable on a monthly basis. Interest is charged at 15.5% on the outstanding balance of service charges, 60% rebate granted for commercial properties as per Council approval.

The new general valuation will be implemented on 01 July 2017.

Notes to the Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies

Operating grants		
Equitable share	152,393,000	151,222,000
FMG Grant	1,825,000	1,800,000
MSIG Grant	-	930,000
MIG Admin	1,655,960	1,679,120
Arts and Culture- Library	1,265,000	744,000
Expanded public works grant	1,299,000	1,872,000
	158,437,960	**158,247,120**
Capital grants		
Small town development grant	857,905	2,940,840
MIG Grant	39,743,040	46,298,880
Neighbourhood Grant	-	6,049,705
	40,600,945	**55,289,425**
	199,038,905	**213,536,545**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Human Settlement Housing Operating Fund

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Expanded Public Works Programme

Current-year receipts	1,299,000	1,872,000
Conditions met - transferred to revenue	(1,299,000)	(1,872,000)
	-	**-**

The purpose of this grant is to promote sound financial management.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None..

Notes to the Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

Finance Management Grant

Current-year receipts	1,825,000	1,800,000
Conditions met - transferred to revenue	(1,825,000)	(1,800,000)
	-	-

The purpose of this grant is to reduce peverty and unemployemnt.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal Systems Improvement Grant

Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-

The purpose

.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Arts and Culture Grant

Current-year receipts	1,265,000	744,000
Conditions met - transferred to revenue	(1,265,000)	(744,000)
	-	-

The purpose of this grant is to fund the salaries for the Librarians.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal Infrastructure Grant

Current-year receipts	41,399,000	47,978,000
Conditions met - transferred to revenue	(41,399,000)	(47,978,000)
	-	-

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

The purpose for this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Neighbourhood Grant

Balance unspent at beginning of year	-	6,662,183
Conditions met - transferred to revenue	-	(6,049,705)
To be transfered back to Treasury (unspent treated as payables)	-	(612,478)
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant si for property development in townships, upgrading community facilities and attracting private sector runding and input.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The amount for this grant was not spent until the approval of the roll over, and the contractor did not perform well which lead to the termination of its contract, and the new contractor was appointed, but the time was against them.

The amount of R612 478 was unpent at the end of the financial year, but the municipality received the letter from National Treasury confirming that the money should be paid back to treasury, and the municipality had to reclassify the amount as payable in the AFS.

Small Town Development Grant

Balance unspent at beginning of year	2,000,000	2,940,840
Current-year receipts	18,000,000	2,000,000
Conditions met - transferred to revenue	(857,905)	(2,940,840)
	19,142,095	**2,000,000**

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The grant was only received in March, and the tender had to be re-advertised because we did not get the intended responses in the 1st advertisement.

Notes to the Financial Statements

Figures in Rand	2017	2016

24. Revenue

Service charges	913,850	829,509
Investment Property Rentals	1,184,345	1,216,825
Interest received (trading)	242,586	217,224
Other income	3,072,789	3,134,461
Interest received - investment	10,801,527	5,888,714
Property rates	6,988,594	7,296,892
Government grants & subsidies	199,038,905	213,536,545
Public contributions and donations	350,000	-
Fines, Penalties and Forfeits	689,295	1,017,630
Learners and licences	674,169	664,206
Motor vehicle registration and licences	498,707	368,384
	224,454,767	**234,170,390**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	913,850	829,509
Investment Property Rentals	1,184,345	1,216,825
Interest received (trading)	242,586	217,224
Other Revenue	3,072,789	3,134,461
Interest received - investment	10,801,527	5,888,714
	16,215,097	**11,286,733**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	6,988,594	7,296,892
Transfer revenue		
Government grants & subsidies	199,038,905	213,536,545
Public contributions and donations	350,000	-
Fines, Penalties and Forfeits	689,295	1,017,630
Learners and licences	674,169	664,206
Motor vehicle registration and licences	498,707	368,384
	208,239,670	**222,883,657**

Notes to the Financial Statements

Figures in Rand	2017	2016

25. Employee related costs

Basic	43,307,375	39,818,669
Bonus	3,329,807	2,761,050
Medical aid - company contributions	2,982,981	2,402,953
UIF	307,022	277,444
WCA	601,622	584,099
SDL	636,815	611,291
Leave pay provision charge	309,150	781,614
Leave encashment	1,516,431	1,202,078
Shift and Danger Allowance	638,280	484,620
Bargaining council	15,349	13,043
Pension fund- municipal contributions	4,744,129	3,983,518
Travel, motor car, accommodation, subsistence and other allowances	3,179,804	2,819,128
Overtime payments	1,665,042	1,236,082
Acting allowances	17,376	257,231
Housing benefits and allowances	1,192,455	1,066,615
Actuarial Losses	(131,527)	352,055
Cellphone expenses	113,668	86,685
Added Responsibilities	490,500	60,000
	64,916,279	**58,798,175**

Remuneration of Municipal Manager

Annual Remuneration	684,903	641,969
Bonus Contract	119,518	91,819
Backpay	21,731	16,578
Travel Allowance	285,376	267,487
Contribution to UIF, Medical and Pension Funds	207,443	160,492
Cellphone Allowance	23,988	23,988
Subsistance Allowance	11,594	10,594
Leave Encashment	129,830	41,156
	1,484,383	**1,254,083**

Remuneration of Chief Finance Officer

Annual Remuneration	592,405	539,354
Bonus Contract	100,414	77,142
Backpay	18,987	13,929
Travel Allowance	154,810	134,839
Contribution to UIF, Medical and Pension Funds	120,063	112,366
Cellphone Allowance	23,988	23,988
Subsistance Allowance	31,179	10,410
Housing Allowance	120,063	112,366
Leave Encashment	38,119	34,578
	1,200,028	**1,058,972**

Remuneration of Infrastructure and Engineering Manager

Annual Remuneration	532,008	503,741
Bonus Contract	93,783	72,049
Backpay	17,052	13,009
Travel Allowance	221,670	209,892
Contribution to UIF, Medical and Pension Funds	88,668	83,957
Cellphone Allowance	23,988	23,988
Subsistance Allowance	6,974	22,713
Housing Allowance	44,334	41,978
Leave Encashment	34,232	32,295
	1,062,709	**1,003,622**

Notes to the Financial Statements

Figures in Rand	2017	2016

25. Employee related costs (continued)

Remuneration of Corporate Services Manager

Annual Remuneration	527,182	494,135
Bonus Contract	91,995	70,675
Backpay	16,726	12,761
Travel Allowance	219,659	205,889
Contribution to UIF, Medical and Pension Funds	131,795	123,534
Cellphone Allowance	23,988	23,988
Subsistance Allowance	25,246	21,868
Leave Encashment	33,579	31,679
	1,070,170	**984,529**

Remuneration of Community and Social Services Manager

Annual Remuneration	521,863	494,134
Bonus Contract	91,995	70,675
Backpay	16,726	12,761
Travel Allowance	217,443	205,889
Contribution to UIF, Medical and Pension Funds	130,465	123,532
Cellphone Allowance	23,988	23,988
Subsistance Allowance	13,684	-
Leave Encashment	33,579	31,679
	1,049,743	**962,658**

Remuneration of Strategic Planning and Development Manager

Annual Remuneration	591,744	494,134
Bonus Contract	91,995	70,675
Backpay	18,966	12,761
Travel Allowance	246,560	205,889
Contribution to UIF, Medical and Pension Funds	147,936	123,532
Cellphone Allowance	23,988	23,988
Subsistance Allowance	18,739	10,651
Leave Encashment	69,289	31,679
	1,209,217	**973,309**

26. Remuneration of councillors

Mayor	758,012	738,254
Deputy mayor	606,410	590,603
Executive members	2,599,378	2,328,474
Speaker	505,341	590,603
Chief Whip	568,510	553,691
Councillors' basic allowance	6,948,137	6,268,086
Councillors' travel allowance	1,540,344	961,748
Councillors' pension fund contribution	1,098,427	1,022,992
Councillors' medical aid contribution	59,805	157,135
Councillors' cellphone allowances	1,861,158	1,255,543
	16,545,522	**14,467,129**

Notes to the Financial Statements

Figures in Rand	2017	2016

26. Remuneration of councillors (continued)

Ward committee expenses

Councillors' basic allowance includes ward committee expenses of R1 788 000 at 30 June 2017 (2016 : R1 122 000).

In-kind-benefits:

The Mayor has a full time secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker's office has a full time secretary.

Number of employees:

The number of employees was 191 at 30 June 2017 (June 2016 : 191).

27. Debt impairment

Traffic fines	541,920	351,450
Rates and refuse	1,818,326	517,565
	2,360,246	**869,015**

Contributions to debt impairment relates to increase in bad debt provision made to traffic fines, and rates and refuse.

28. Depreciation and amortisation

Property, plant and equipment	44,803,393	41,854,207
Investment property	30,166	30,166
Intangible assets	356,756	159,875
	45,190,315	**42,044,248**

29. Impairment of assets

Impairments		
assets	-	26,100

30. Interest expense

Trade and other payables	-	383
Landfill site	-	186,211
Other interest paid	375,545	809,007
	375,545	**995,601**

Notes to the Financial Statements

Figures in Rand	2017	2016

31. General expenses

Audit and Accounting fees	1,689,613	1,494,763
Administration fees	1,036,407	856,440
Bank charges	54,255	47,213
Cleaning	741,930	670,333
Consulting and professional fees	7,075,926	8,787,324
Electricity	3,012,543	3,038,290
Entertainment	3,163,812	2,677,914
Equipment hire	2,710,630	1,064,024
Insurance	1,199,206	589,313
IT expenses	217,872	244,615
Grocery distributions	1,107,884	849,193
Promotions and sponsorships	456,219	380,145
Motor vehicle expenses	1,545,103	1,783,461
Implementation of property rates	903,534	285,968
Fuel and oil	1,933,547	1,993,383
Printing and stationery	2,821,125	2,107,851
Security (Guarding of municipal property)	4,793,736	4,852,699
Subscriptions and membership fees	760,849	507,834
Telephone and fax	2,656,239	2,366,263
Transport and freight	928,634	968,591
Training	1,680,199	1,628,455
Subsistance and travelling	5,594,251	4,886,043
Water	89,214	52,283
Uniforms	419,001	186,391
Other operating and administrative expenses	2,327,628	2,393,274
Office Equipment expenses	240,568	188,909
Legal fees	669,936	579,910
Loss on scrapping of assets	399,851	273,919
Pound expenses	39,725	23,194
	50,269,437	**45,777,995**

32. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Equipment		
• Contractual amounts	334,062	184,491

Impairment on assets	-	26,100
Amortisation on intangible assets	356,756	159,875
Depreciation on property, plant and equipment	44,803,393	41,854,207
Depreciation on investment property	30,166	30,166
Employee costs	81,461,801	73,265,304

Notes to the Financial Statements

Figures in Rand	2017	2016

33. Cash generated from operations

Surplus	34,402,016	60,106,396
Adjustments for:		
Depreciation and amortisation	45,190,315	42,044,248
Impairment deficit	-	26,100
Debt impairment	2,360,246	869,015
Movements in retirement benefit assets and liabilities	68,623	593,801
Movements in provisions	(103,648)	186,211
Other non-cash items	-	64,186
Prior period errors	(759,208)	6,357,823
Changes in working capital:		
Receivables from exchange transactions	45,525	(2,633,909)
Receivables from non-exchange transactions	668,128	(555,043)
Payables from exchange transactions	3,162,766	2,185,595
VAT	2,557,106	1,888,934
Unspent conditional grants and receipts	17,142,095	(7,603,023)
	104,733,964	**103,530,334**

34. Contingent liabilities

Legal claims

Various claims submitted to the municipality are in the process of being resolved.
Should the respective claimants be successful with their claims, the estimated Municipal liability on such claims, is disclosed below'.

Legal disputes relate to:

Failure to comply with the acknowledgement of debt	-	7,000
Invasion of Municipal Land and Illegal structure	115,000	20,000
Municipal investigations and employees dispute	45,000	8,000
Default judgements	36,000	16,000
Breach of contract	3,000	14,000
Outstanding settlements	65,000	15,000
Opposing action for damages	40,000	-
	304,000	**80,000**

Notes to the Financial Statements

Figures in Rand	2017	2016

35. Commitments

35.1 Authorised capital expenditure

Authorised and contracted		
• Buildings	8,568,849	12,795,244
• Community assets	2,229,181	8,709,862
• Infrastructure assets	13,069,726	18,919,147
	23,867,756	**40,424,253**
Total capital commitments		
Already contracted for but not provided for	23,867,756	40,424,253
Authorised operational expenditure		
Already contracted		
• Operational commitments	2,685,099	5,916,174
Total operational commitments		
Already contracted	2,685,099	5,916,174
Total commitments		
Total commitments		
Authorised capital expenditure	23,867,756	40,424,253
Authorised operational expenditure	2,685,099	5,916,174
	26,552,855	**46,340,427**

The amounts of commitments include VAT

35.2 Operating leases - as lessee (expense)

At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due		
- within one year	300,673	300,673
- in second to fifth year inclusive	275,617	576,289
	576,290	**876,962**

8 Photocopy Machines(Konica Minolta) : The Municipality had a lease agreement of the machines that started in 1 December 2012, and ended in 31 December 2015.
8 Photocopy Machines (Nashua): The municipality then entered into new lease agreement of 8 machines that started on 1st of June 2016, and the monthly rental is payable at the end of each month over the period of 36 months.

35.3 Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	1,539,973	1,448,109
- in second to fifth year inclusive	3,278,876	2,890,611
- later than five years	19,659,984	20,319,025
	24,478,833	**24,657,745**

Figures in Rand	2017	2016

35. Commitments (continued)

The municipality leased vacant land to a property developers whom has developed uMzimkhulu Mall, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2%payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Umzimkhulu Mall and Hotel commitments have been calculated and will not perform the smoothing on a straight-line over the period of the lease.

36. Risk management

36.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

Financial Assets		
Petty cash	1,621	96
Bank balances	666,652	419,953
Short-term deposits	174,829,579	111,325,115
Receivables from exchange transactions	827,728	941,571
Receivables from non exchange transactions	269,111	419,450
Other receivables from exchange and non-exchange transactions	3,622,889	4,072,360
	180,217,580	**117,178,545**
Financial Liabilities		
Payables from exchange transactions	16,817,686	13,654,920
Unspent conditional grants	19,142,095	2,000,000
Unspent agent funds	21,777,207	17,430,244
	57,736,988	**33,085,164**

Notes to the Financial Statements

Figures in Rand	2017	2016

36. Risk management (continued)

36.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Payables from exchange transactions	16,817,686	13,654,920
Payables from non-exchange transactions	-	612,478
	16,817,686	**14,267,398**

36.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

Balances exposed to the interest rate risk:		
Bank balances	666,652	419,953
Short-term deposits	174,829,579	111,325,115
	175,496,231	**111,745,068**

36.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2017	2016
Receivables from exchange transactions	827,728	941,571
Receivables from non exchange transactions	269,111	419,450
Consumer debtors	3,622,889	4,072,360
	4,719,728	5,201,711

37. Fruitless and wasteful expenditure

There were no fruitless and wastful expenditure in the financial year under review.

38. Irregular expenditure

Heading		
Opening balance	-	2,253,500
Add: Irregular expenditure- current year	10,763,259	466,610
Expenditure- prior year- identified in the current year	166,700	-
Less: Amounts Written-off by Council	-	(2,720,110)
	10,929,959	**-**

Figures in Rand	2017	2016

38. Irregular expenditure (continued)

The irregular expenditure R10 144 319: is for the appointment of the implementing agent for Electrification project , the advert was for 24 days instead of 30 days, but all the processes were properly followed, however as per SCM regulations if the advert is less than 30 days it is regarded as irregular expenditure if not approved by accounting officer as a deviation.

The irregular of R468 940 (2016 irregualr identified in the current year of R166 700): the municipality was using a standard price for catering, and the selection of service providers was randomly selected by the financial system out of all the caterers in the municipal data base, and the system was free of any manipulation, however according to the SCM regulations the municipality should have sourced out 3 quotations.

The irregular of R150 000 relates to the appointment of a service provider where one service provider did not submit a document that was supposed to be submitted as per briefing minutes, but it has been declared unfairly disqualified.

39. Unauthorised expenditure

There was no unauthorised expenditure in the financial year.

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2017	2016
Current year subscription / fee	748,974	500,000
Amount paid - current year	(748,974)	(500,000)
	-	-

Audit fees

	2017	2016
Current year subscription / fee	1,689,613	1,494,763
Amount paid - current year	(1,689,613)	(1,494,763)
	-	-

PAYE and UIF

	2017	2016
Current year subscription / fee	10,913,495	9,789,858
Amount paid - current year	(10,913,495)	(9,789,858)
	-	-

VAT

	2017	2016
VAT receivable	-	2,495,265
VAT payable	61,841	-
	61,841	**2,495,265**

All VAT returns have been submitted by the due date throughout the year.

Figures in Rand	2017	2016
41. Related parties		
Related party transactions		
Councillors- in arrears more than 90 days		
Cllr Mbiko	5,468	-
Section 57 employees		
Remuneration	7,079,250	6,237,173
Councillors		
Remuneration	16,545,522	14,467,129
Councillors lease rentals		
Cllr MB Mpabanga	4,730	4,620
Employees lease rentals		
N Tyekela	14,040	13,308
K. Dweba	14,040	13,308

42. Awards to close family members of persons in the service of the state

Supplier name	Director's name	person in the service of state	Position of Employee	awarded amount
Tower City Trading	Andile Mbalo	Kholeka Mbalo	Community and Social Services Manager	2,466,704

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

The municipality procured security services and the process followed in procuring these services deviated from the provisions of paragraph 12(1)(d)(i) as stated above amounting to R1 735 845. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations

44. Events after the reporting date

The Heritage asset (Memorial hall) is currently undergoing major renovations that could have a significant impact on its value in future.

No other material category of non-adjusting events took place after the reporting date.

45. Prior period errors

In the prior year, leave pay accrual was overstated by R676 948.

45. Prior period errors (continued)

Community assets worth R7,179,751 should have been capitalised in the prior year, yet remained in capital work in progress. As a result infrastructure assets were understated with community assets overstated. There was also an impact of understating prior year depreciation by R11 301 as a result of the non capitalised assets.

Other fixed assets were over stated by R158 500 and (prepayments and Printing and stationery) understated by R121 000 and R37 500 respectively. The Accumulated depreciation and depreciation for other fixed assets was overstated by R19 372.23

The Housing Developement Fund was understated with an amount of R113 814.57
Lease Creditors were understated by R13 732

The impact of the foregoing errors is as follows:

Statement of financial position		
Community Assets	-	7,179,751
Capital work in progress	-	(7,179,751)
Prepayments	-	121,000
Other fixed assets	-	(158,500)
Accumulated Depreciation Other fixed assets	-	(19,372)
Accummulated Depreciation Community Assets	-	11,301
Payables from exchange transactions	-	676,948
Housing Development fund	-	113,815
Payables from exchange transactions	-	(5,477)
Lease Creditors	-	13,732
Statement of Financial Performance		
Depreciation expense	-	(8,071)
Leave pay movemenet	-	(676,948)
Printing and stationery	-	37,500
Salaries	-	5,477

Statement of Financial Performance	**Previously Reported**	**Restated**
Employee related costs	58,798,175	58,121,227
Depreciation and Amortisation	42,052,319	42,063,620
	100,850,494	**100,184,847**

Statement of Financial Position	**Previously Reported**	**Restated**
Payables from exchange transactions	14,949,823	14,267,398

46. Changes in accounting policy

The Municipality has early adopted GRAP 109 being a standard on accounting by principals and agents. The result of this change in accounting policy impacts the Human Settlement Housing Operating Fund and the Electrification Grant - DoE previously reported as conditional grants.

The impact of this change in accounting policy therefore is that the Human Settlement Housing Operating Fund is now reported as part of the Housing Development Fund- a specific purpose reserve. Similarly, the Electrification Grant- DoE has been reclassified to Electrification Fund-DoE a specific purpose resrve.

Notes to the Financial Statements

Figures in Rand

46. Changes in accounting policy (continued)

Accumulated Surplus		
Grant income previously recognised- Electrification Grant	-	20,000,000
Sundry income	-	(2,535,068)
Loss on disposal-previously recognised	-	(16,041,202)
	-	**1,423,730**

Statement of financial position

Government Grants and Subsidies		
Operating grants	158,247,120	158,247,120

Capital grants		
Small town development grant	2,949,840	2,949,840
Electrification grant	20,000,000	-
MIG grant	46,298,880	46,298,880
Neighbourhood grant	6,049,705	6,049,705
	75,298,425	**55,298,425**

TOTAL GRANT INCOME	233,545,545	213,545,545

Unspent conditional grants and receipts	Previously Reported	Restated
Human Settlement housing fund	16,528,807	17,475,577
Small Town Development Grant	2,000,000	2,000,000
	18,528,807	**19,475,577**

Impact on Reserves

Housing Development Fund	19,215,894	17,402,161

Statement of financial position extract	Previously Reported	Reclassification	After Reclassification
Infrastructure Assets	361,163,374	-	361,163,374
WIP Infrastructure Assets	61,339,780	(49,696,288)	11,643,492
Community Assets	102,998,092	7,179,752	110,177,844
WIP Community Assets	33,415,754	(7,179,752)	26,236,002
Other Fixed Assets	40,093,483	(158,500)	39,934,983
Accumulated Depreciation- Community Assets	11,452,123	11,301	11,463,424
Accumulated Depreciation- Other Fixed Assets	11,839,616	(19,372)	11,820,244
	622,302,222	**(49,862,859)**	**572,439,363**

Statement of Financial Performance- extract	Previously Reported	Reclassification	After Reclassfication
Depreciation	42,052,319	(8,071)	42,044,248

47. Budget differences

Material differences between budget and actual amounts

47. Budget differences (continued)

Variance explanations:

The budget is approved on an accrual basis nature of classification. The approved budget covers the period of 01 July 2016 to 30 June 2017
Materia variances on final budget compared to actual

Revenue

Property Rates - The decrease in the property rates is caused by the rebates that the municipality has provided in this financial year, reducing the property rates by R3 million to R6.9 million. Refer to note 21 of the annual financial statements.

Services Charges –The 4% more than the budget amount is due to non-renewal of indigent applicants

Investment revenue – More interest was earned than participated during the year due improvement on our cash flow and investment with Investec and Ned bank.

Other Revenue – The demand for dumping and hall hire was high in the financial year.

Licencing and motor registration, there were more applications received in the financial year after the adjustment budget.

Expenditure

Employee costs – The savings on salaries is due to vacant post for finance intern (four months), Housing Estate level 1 (five months) and three general workers level 9 (five months) all this post was not filled during 2016/2017 financial year.

Remuneration of councillors - the savings on remuneration of councillors is due to some councillors were not paid for May and June 2017 due to passed away.

Debt impairment – The budget was based on the debt impairment for previous financial year, the actual for 2017 is what the debt impairment increase by.

Depreciation and asset impairment –This is due to some projects or assets that were in work in progress at the beginning of the year that were completed later than expected. Those projects or assets were eventually completed towards the end of the financial year and that resulted in a decrease in the actual depreciation for the year.

Finance charges – This savings is a result of varying of bank charges.

Contracted Services – The municipality did not receive June invoice from the security company.

Transfers and Grants – The savings is due to decrease of indigent applicants in areas where we bill rates.

Other expenditure – The savings realised on other expenditure is a result of the following:

The municipal impounded fewer animals because the community is more aware of the animal pound operations and keep animals off the road.

The municipality refrained from hiring tents and utilised community halls for departmental events; to minimise costs.

The suppliers for uniform and protective clothing did not meet SCM requirements.

Motor vehicle expenditure such as fuel and oil, the municipality realised savings due to implementation of internal controls and strict adherence to fleet management policy.

The municipality had a contract with service provider for maintenance of electricity as per the appointment letter the contract amount was completed in February and thereafter there was no invoice from the services provider till the end of the financial year.

Capital Expenditure

47. Budget differences (continued)

Transfers recognised capital – An amount of R18 million is for Small Town SMME which was not recognised due late transferring of fund to the municipal account by department of Corporate Governance and Traditional affairs.

Through application of GRAP 109 the electrification grant was not recognised in the municipality revenue as the municipality is acting as an agent

Total capital expenditure – The unspent on capital expenditure is due to the following:

IT Software and Hardware bidders were not compliant with Supply Chain processes.

The contractors experienced major delays during the financial year which lead to the scope of the project being revised.
Other expenditure the municipality realised savings than anticipated on the budget.

Internally generated funds:

The unspent on Small Town Development is due to the contractor that was appointed for phase 1 who experienced major delays which lead to the scope of the project being revised and the project not being completed on time.

On Memorial Hall: The 1st service provider services were terminated due to non performance, and the 2nd service provider experienced delays to get an approval from Amafa due to the designs that were not compliant as per Amafa requirements, since the project is under the Heritage site. The municipality is also addressing planning issues, such as consolidation of the ERF that is still on the process of being registered at Surveyor General.